STATE OF MONTANA

Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
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August 27, 1990

TO: Legislators, Other Elected Officials, and Interested Citizens

FROM: Teresa Olcott Cohea
Legislative Fiscal Analyst

SUBJECT: Ballot Initiatives, 1990

Enclosed is a copy of a report providing information on and analysis of the two initiatives that will appear on the ballot this November. The report was prepared by my staff for the Legislative Finance Committee.

The Committee voted to have copies of this report sent to elected officials throughout the state. Since CI-55 would have considerable impact on revenue collection and budgeting procedures for state government, school districts, and local governments, the Committee thought that this analysis would be helpful to elected officials in understanding the provisions of the proposed initiative.

THE REPORT IS INTENDED TO BE INFORMATIONAL ONLY AND DOES NOT TAKE A POSITION ON EITHER INITIATIVE.

BALLOT INITIATIVES
1990

Distribution Authorized by the Legislative Finance Committee

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Prepared by the
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EXECUTIVE SUMMARY

This report provides a summary and analysis of the two initiatives that will appear on the ballot this November.

CI-55

CI-55 would amend Montana's constitution to prohibit the imposition of any income, property, or sales taxes and any registration, permit, or license fees on Montana businesses and residents, effective July 1, 1991. To replace the approximately $1.1 billion raised annually by these taxes and fees, the initiative imposes a 1 percent trade charge on all financial transactions. Because the initiative does not define what transactions would be taxed or how the tax would be collected, it is impossible to estimate how much revenue would be generated by the tax or who will pay it. Estimates of the trade charge revenue generated vary from $380 million to $4.35 billion per year.

Montanans will pay $70 million more in federal tax if the initiative is successful, since income and property taxes are federally deductible but the trade charge is not.

CI-55 also requires that all existing bonds be repaid using trade charge revenue. A significant portion of the $1.3 billion of outstanding state and local government bonds are backed by revenue sources that would be prohibited under CI-55. In addition, the initiative requires the legislature to enact statutes prohibiting state and local governments from incurring any debt after November 6, 1990--the day of the election--that will not be repaid with trade charge revenue.

Under CI-55, the legislature would be responsible for allocating trade charge revenue among state government agencies, the more than 500 school

districts, all counties and municipalities, and hundreds of special districts. Local government units would no longer be able to raise revenue locally through property tax mill levies or local fees and licenses.

Since the trade charge will be imposed on every financial transaction on each stage of the manufacture and marketing of a product, consumer prices may increase more than 1 percent as a result of the tax.

I-115

I-115 would statutorily increase cigarette taxes from 18 cents to 43 cents per pack and taxes on other tobacco products from 12.5 percent to 25 percent of their wholesale price. The revenue from the tax increase will be deposited in a tobacco education and preventive health care account for grants to provide health education programs and research. The initiative would be effective July 1, 1991.

If I-115 is successful, the increased tax rates will produce approximately $33.4 million during the 1993 biennium, assuming consumption remains at current levels.

INTRODUCTION

Two initiatives received enough signatures from Montana citizens to qualify for inclusion on the ballot which will be placed before voters on November 6, 1990. They are Constitutional Initiative 55 and Initiative 115.

The purpose of this report is to provide legislators and other interested parties with information on and an analysis of each initiative. The report also details issues and questions the 1991 legislature will face if these initiatives are approved by voters.

In addition to these two initiatives, the legislature has approved the inclusion of two referenda on the November ballot:

1) C21 - amending Montana's constitution to require that a valid election be held on properly qualified ballot issues.

2) CC1 - submitting the question of whether there should be an unlimited convention to revise, alter, or amend Montana's constitution.

Since the legislature has held public hearings on and considered these referenda, this report does not include analyses of either C21 or CC1.

CONSTITUTIONAL INITIATIVE 55

Summary of Initiative

If approved by voters, Constitutional Initiative 55 (CI-55) will amend Montana's constitution to:

1) Prohibit the imposition of any taxes on income or property, any retail or selective sales taxes, or any registration, permit, or license fees on "bona fide" Montana businesses or residents after June 30, 1991.

2) Establish a trade charge levy on "the gross value of every business and financial transaction conducted wholly or partially

within the state." The constitutional amendment would allow no exemptions from the tax, unless provided by the U.S. Constitution. The tax rate would be 1 percent from July 1, 1991 through December 31, 1992 and adjusted thereafter. The tax rate could be increased for up to five years with approval of 60 percent of those voting in a general election.

3) Require the legislature to enact laws to collect the trade charge and distribute the proceeds among the state, school districts, and local government entities.

4) Require the legislature to enact laws to ensure that all existing debt (bonds) of the state and its political subdivisions are paid using trade charge revenue and that neither the state nor its political subdivisions incur any indebtedness after November 6, 1990, unless the debt will be paid with trade charge revenue.

5) Repeal the constitutional provisions requiring an independent tax appeal process for taxpayer grievances.

6) Repeal the constitutional provisions requiring that revenue from gross vehicle weight fees and motor fuel taxes be used only to fund the highway and related programs and that livestock levies be used only for livestock-related functions.

7) Repeal the constitutional provisions concerning property tax procedures.

8) Repeal the constitutional provision that imposes a tax on regulated industries to fund the Consumer Counsel.

Each of these proposed changes is discussed in more detail below. The constitutional provisions that would be repealed or amended by the initiative are shown in Appendix A.

Analysis of Initiative Provisions

Repeal Current Tax Sources

Under CI-55, state income taxes, corporate taxes, property taxes, fuel taxes, liquor taxes, cigarette taxes, motor vehicle license fees, drivers' license fees, marriage license fees, fish and game license fees and numerous other registration, permit, and license fees and taxes would be prohibited after June 30, 1991. It is unclear under the initiative language whether user fees (such as parking fees and water and sewer charges) and certain other taxes (such as inheritance taxes) would be prohibited. Sponsors of the initiative say that severance taxes (which tax mineral production) would not be prohibited.

The language of the initiative does not prohibit state and local governments from receiving revenue from investment earnings, rents, royalties, leases, grants, contracts, donations, federal funds, or fines and forfeitures. Nor does the trade charge prohibit self governing subdivisions of the state government from collecting trade charge revenue themselves.

The taxes prohibited under CI-55 currently generate approximately $1.1 billion per year for state government, schools, and local governments. Table 1 shows the fiscal 1989 revenue from these taxes by revenue source for state and local taxing jurisdictions. The local revenue shown includes county, city, school district and special district property tax revenue, but does <u>not</u> include revenue from charges, permits, registration, fees, and interest earnings (which totalled $303 million in fiscal 1987, the latest year for which information is available). To the extent that some of the sources of this revenue may also be prohibited under CI-55, the fiscal impact of CI-55 may be greater than the $1.1 billion shown in Table 1. The sources of revenue that would be prohibited under CI-55 comprise approximately 40

percent of all revenue currently collected by the state, school districts, and local governments.

TABLE 1 State and Local Revenue from Repealed Sources under CI-55		
Revenue Source	FY89 Revenue (Millions)	Percent of Total or Subtotal
State Revenue		
Tax Revenue	$ 476.0	16.9%
License & Permits	94.8	3.4
Selective Sales Tax	137.2	4.9
Total State Tax, License, Permits	708.0	25.2
Local Property Taxes	416.5	14.8
Total Repealed Revenue	**1,124.5**	**39.9**
Other State & Local Revenues	1,690.8	60.1
Total State & Local Revenue From All Sources	2,815.3	100.0

Imposition and Administration of a Trade Charge

CI-55 does not provide any details on what financial transactions the trade charge will be imposed upon or how it will be collected. The initiative sponsors say:

> Constitutions should not be used to define the mechanics of revenue collection. Therefore, CI-55 rightly leaves this job to the Legislature. Their major task, of course, will be to ensure that all transactions are indeed subject to the Montana Trade Charge.

If the initiative is approved by the voters, the 1991 legislature will have to consider questions such as the following in enacting legislation to implement the initiative:

1) <u>What transactions will be taxed?</u> How will "transaction" be defined? Will it include cash transactions or only those involving financial institutions? Will taxable transactions include financial transfers when

ownership is not transferred, such as transfers from checking to savings accounts? Would the trade charge apply to income as it is earned <u>and</u> as it is spent? If money is saved, is it exempt from the trade charge? If it is, are all savings instruments exempt from the trade charge? Are certain securities, such as bonds and mutual funds, defined as saving instruments or are they loans? How are loans to be treated? Will the trade charge apply to the principal when the money is loaned out <u>and</u> to the principal repayment and interest when the loan is paid back? Will transfer of revenue from state government to school districts and local governments be considered a financial transaction, and as such, subject to the trade charge? How will out-of-state sales and purchases be handled?

The only direction that the initiative gives in answering these questions is that "every business and financial transaction conducted wholly or partially within the state" shall be taxed, except those prohibited by the U.S. Constitution. The two types of transactions offered protection by the U.S. Constitution are those involving interstate commerce and federal government payments to states and localities.

2) <u>Who is liable for paying the trade charge?</u> CI-55 does not state who is liable for payment of the trade charge. There are two logical alternatives: the seller or the buyer. If the seller is solely liable for payment, all exports from the state would be subject to the tax. Imports may escape the tax, since it may be possible for the out-of-state seller to legally refuse payment. In the *Bella Hess* decision, the U.S. Supreme Court held that state taxes cannot be collected from out-of-state sellers who have no "nexus" in the taxing state. To capture taxes on imports would require a provision that taxes which are not collected from a seller become the liability of the buyer. If the buyer is solely liable for payment, exports may escape taxation under the trade charge.

3) <u>How will the trade charge be collected?</u> CI-55 leaves unspecified the point of collection for this new tax. Tax collection could occur at the point of sale or as a check clears a financial institution. If collection is made at the point of sale and the seller is responsible for collection, taxes on out-of-state sales may not be collected. In addition, collecting the tax on cash sales may be difficult. If collection is at the point of sale and the buyer is responsible for collection, transactions involving out-of-state purchases may escape the tax. If the tax is collected when checks clear an in-state financial institution, sellers and buyers may have an incentive to deal in cash or to deal with an out-of-state financial institution. Whatever the point of collection, the collecting entity will face higher accounting, monitoring, and reporting costs.

4) <u>Can the new tax be implemented quickly enough to replace repealed revenue?</u> CI-55 prohibits the imposition of income, property, and sales taxes after June 30, 1991, and imposes the trade charge on July 1, 1991. The eight months between passage of the initiative and the effective date of the trade charge provides little time for enactment and implementation of an administrative structure to collect this new tax. The Department of Revenue has estimated that it would require from 12-18 months to implement a statewide retail sales tax after legislation approving it was enacted.

CI-55 requires a statewide election to raise the trade charge levy, with at least sixty percent of those voting in a general election approving the increase. The initiative provides no mechanism for lowering the rate of the trade charge levy.

Distribution of Trade Charge Revenue

CI-55 does not provide any formula or method for distributing the revenue collected from the trade charge among the various jurisdictions: state, schools, local governments, and special districts. Sponsors of the initiative state:

> How will the trade charge be distributed? A key question! Current taxes are typically earmarked for special purposes, programs, and/or localities. Montana Trade Charge revenues will flow into a statewide fund for distribution to counties, cities & towns, schools & universities, and various other state government functions. Because of constantly changing needs and priorities, no attempt should be made to set this revenue distribution in 'constitutional concrete'. Therefore, once again, it will be the job of our elected legislative representatives to apportion the revenues biennially.

If CI-55 is approved by voters in November 1990, by July 1, 1991, the legislature will have to enact legislation distributing trade charge revenue among state government and the over 500 school districts, 56 counties, 128 municipalities, and hundreds of special districts (irrigation, mosquito, cemetery) that currently rely on revenue from sources that will be prohibited under the initiative. Since nearly 40 percent of the revenues that will be repealed by the initiative are collected locally, the legislature has not been directly involved in its budgeting or expenditure.

In addition, the earmarking for several large state government programs--highways, fish and game, school equalization program, livestock inspection and enforcement programs, and the six-mill university levy--will effectively end since most of their current revenue sources will be repealed. Therefore, the legislature will have to balance the needs of these programs with the needs of the rest of state government, all local governments, and all school districts in allocating trade charge revenue for the 1993 biennium.

Bonded Indebtedness Issues

CI-55 requires that the legislature enact laws to ensure that <u>all</u> existing bonds ("lawful debts") issued by the state and its subdivisions prior to November 6, 1990 "are retired in a timely manner using trade

charge revenue." This language may create a constitutional dilemma for the legislature since:

1) the indenture for many of the current outstanding bonds pledge revenue sources that will be prohibited under Montana's constitution if CI-55 passes; and

2) the constitution (Article II, section 31) prohibits the legislature from impairing existing contractual obligations.

Table 2 shows the $1.3 billion of current bonded indebtedness owed by the state, school districts, and local governments, by type of bond. The total amount of state revenue bonds which pledge revenue sources prohibited by CI-55 is $150 million. Even though a substantial portion of the state revenue bonds are backed by revenue sources that are not prohibited under CI-55 (such as Board of Housing, water development and Economic Development bonds), the initiative requires that <u>all</u> government debts be retired using trade charge revenue.

In addition, CI-55 requires the legislature to enact laws ensuring that no new indebtedness is issued after November 6, 1990 at any level of government unless provision is made for retirement of the debt using trade charge revenue. If CI-55 is approved by voters on November 6, this provision may require an immediate special session of the legislature to ensure this constitutional requirement is met.

TABLE 2
Bonded Indebtedness at the State and Local Levels Fiscal Year End 1990

Taxing Jurisdiction	Principal Outstanding (Millions)
State	
General Obligation Bonds	$ 77.1
Revenue Bonds	872.8
Total State Indebtedness	949.9
Local	
Counties and Cities	177.8
Schools	160.5
Total Local Indebtedness	338.3
Total Debt	**$1,288.2**

Note: School debt outstanding as of fiscal year end 1989.

Repeal of Tax Appeal Process

If approved by voters, CI-55 will repeal the constitutional requirement that the legislature must provide "independent appeal procedures for taxpayer grievances about...taxes." While the legislature could statutorily continue the current State Tax Appeal Board, Montanans would no longer have a constitutional guarantee of appeal from state tax decisions.

Repeal of Highway Trust Fund and Livestock Levy

CI-55 would repeal the constitutional provision requiring that funds raised from Gross Vehicle Weight fees (GVW) and motor fuel taxes be used for highway-related programs. Similarly, it repeals the section of the constitution that requires that levies imposed on livestock and agricultural commodities be used solely for disease control, predator control, and livestock and commodity inspection, protection, research, and promotion. Since GVW fees, gasoline taxes, diesel taxes, and livestock levies will be

prohibited under CI-55, these programs will have to compete with all other state government programs and with schools and local government for funding from trade charge revenue.

Revenue Effects

Proponents of CI-55 state that a 1 percent trade charge levy will produce between $1.60 billion and $1.95 billion per year. This estimate assumes that: 1) total annual checkable deposits in Montana financial institutions between $1.6 billion and $1.95 billion; 2) a checkable deposit turnover ratio of 100; 3) a one percent trade charge; and 4) no change in behavior by depositors. Checkable deposits are defined as all accounts in Montana financial institutions (banks, savings and loans, credit unions, etc.) against which checks may be written. The deposit turnover ratio is defined as the number of times the average checkable deposit "turns over" in a year. Since no information is available on the actual turnover ratio in Montana, proponents assumed a turnover rate of less than one-third the national average.

Data from Federal Reserve Bank staff underscore how different assumptions concerning the turnover rate can dramatically affect the estimated revenue the trade charge would produce. An economist in the Research Department of the Federal Reserve Bank of Minneapolis estimated that there was $1.5 billion in deposits in Montana banks in 1988. If the nationwide turnover ratio (excluding major high-volume New York financial institutions) is used, a 1 percent trade charge would produce $4.35 billion per year. Nationwide, the turnover ratio for demand deposits is over 20 times higher than for other kinds of deposits. If the turnover ratio for other deposits is used as an assumption, the amount of revenue that would be collected from a 1 percent trade tax drops to $0.38 billion per year.

In addition to questions about the turnover ratio, precise estimates of the revenue base to which the trade charge would be applied are difficult to obtain. No existing source shows the value of total transactions--cash or otherwise. Personal income is not an adequate measure of the revenue base under CI-55, because income does not reflect the number or value of financial transactions made in an economy. Even if a precise calculation of annual Gross State Product (GSP) were available, it would not be a good base upon which to base estimates of revenue collection since GSP is a measure of the sum of the value added in an economy in a year, not of the gross value of financial transactions at each stage of the economy. If data on gross sales receipts for all industries at all stages of the economy in Montana were available, it would provide an adequate estimate of the trade charge revenue base. While the U.S. Department of Commerce collects data on gross sales receipts for agriculture, manufacturing, minerals, government, transportation, construction, service industries, wholesale trade, and retail trade, it does not collect data on gross receipts from public utilities, securities, financial institutions, real estate, communication, and other industries.

Moreover, there are no models to estimate taxpayer response to a trade charge on all financial transactions. Current taxation practices rely on a revenue base that is more or less "captive" in the state, i.e., property, income, or sales. The revenue base under a trade charge does not include these tangible assets themselves, but rather the <u>transfer</u> of these and other assets. A significant portion of the transfers that would be taxed under the trade charge are not captive to the state because the inputs required to produce the transferable product or service, as well as the money to purchase the transferable product or service, can easily be moved beyond the reach of the Montana taxing authorities. Examples of

these easily-moved transactions are trades performed by the securities industry and transactions performed by the financial industry. While proponents state that the Montana trade charge "creates no strong incentives for avoidance or evasion," there may well be changes in taxpayer behavior as a result of the new tax, possibly reducing revenue collections substantially.

For these reasons, it is impossible to predict with any certainty what revenue would be produced under the proposed trade charge.

It is equally difficult to estimate the cost of administering and enforcing the new tax. The Department of Revenue's administrative costs would be reduced by over $15 million per year if income, corporation, motor fuels, property taxes and other taxes prohibited in CI-55 were repealed. There would also be administrative cost savings at the local level with the repeal of property taxes, motor vehicle license fees, and other licenses, fees, and taxes. However, since no other state has a trade charge and CI-55 provides no specifics on what transactions the tax applies to and who is responsible for collecting it, it is impossible to estimate the administrative costs of collecting and enforcing the new tax.

Much of the cost associated with collection and enforcement depends on the point at which the tax would be collected. If the point of sale is the collection point, enforcement costs could be much higher than if the tax is imposed when a check clears a financial institution. However, if "check-clearing" is the point of collection, much of the monitoring, collection, and enforcement costs will be borne by financial institutions. If the state does not compensate financial institutions for these additional costs, they may pass them on to consumers in the form of higher interest rates or fees.

Taxpayer Liability

CI-55 proponent's literature claims that tax collections will increase about $500 to $850 million per year under the trade charge, but that tax liability for the typical taxpayer will be substantially reduced. The question then arises--who will pay the increased revenue under this new tax? Given the lack of specific details about the tax, it is impossible to determine who will pay it.

However, one thing is clear--Montanans would pay more federal tax if CI-55 were approved. Currently, state income taxes and property taxes are deductible against federal income tax liability, but a tax such as the trade charge would not be. The substitution of a trade charge for these federally deductible taxes would cause Montanans' federal income tax bill to increase by approximately $70 million in 1992.

Price Effects

The price effects of the trade charge could be substantial, especially for those products which have a long chain of transactions occurring within Montana. Middlemen in that chain will attempt to pass the tax on to their buyers or to their suppliers of inputs. To the extent they are successful, the tax will generate higher retail prices to consumers and/or lower prices to suppliers of raw materials. Products produced by vertically integrated firms with many stages of production for which there is no title transfer of intermediate inputs would realize a price advantage over similar products with many title transfers in the intermediate stages.

Following is an example of the effects of a trade charge on prices. This example assumes: 1) the following chain of transactions in the production of bread--farmer to elevator, elevator to miller, miller to baker,

baker to retailer, retailer to consumer; 2) that sellers are responsible for collection and payment of the tax; and 3) these sellers are successful at passing on the full amount of the trade charge to their customers.

TABLE 3
Illustration of the Effect of CI-55 on Prices

Transaction	Gross Value w/o CI-55	Tax Paid by Sellers	Increase in Price Paid by Buyers	Cumulative Tax Paid	Gross Value Under CI-55
Farmer-Elevator	$ 100	$ 1.00	$ 0.00	$ 1.00	$ 101.00
Elevator-Miller	150	1.50	1.50	3.00	153.00
Miller-Baker	300	3.00	4.50	7.50	307.50
Baker-Retailer	600	6.00	10.50	16.50	616.50
Retailer-Consumer	1,000	10.00	20.50	30.50	1,030.50

In the example above, the price at retail to the consumer rises by over 3 percent as a result of the 1 percent trade charge being applied to gross value at each stage of the process. The farmer charges the elevator for the $1 trade charges he will owe to the government. The elevator purchases $50 in non-wheat inputs (labor, power, and repairs), paying $.50 increased costs due to the sellers' trade charge liability. Thus, the elevator owner's costs go up $1.50. In addition, he must collect $1.50 when he sells the wheat to the miller. In order for the elevator owner to recoup these costs, he must raise his price by $3.00. The miller pays the extra $3.00 plus pays an additional $1.50 in higher prices charged by the sellers of the non-wheat inputs (labor, equipment, repairs, power) he buys. In addition, he pays $3.00 in trade charge when he sells the flour. In total, his price must rise by $7.50 if he is to break even.

In cases where sellers are unable to pass along trade charges, prices will not rise as fast as in the example above, but sellers will realize lower profits.

INITIATIVE 115

Summary of Initiative

If approved by voters, Initiative 115 would:

1) increase the cigarette tax from 18 cents to 43 cents per pack of 20 cigarettes;
2) increase the tax on other tobacco products from 12.5 percent to 25 percent of the wholesale price;
3) deposit the increased revenue in a tobacco education and preventive health care fund account; and
4) create an advisory council to make recommendations for awarding grants from the funds in the tobacco education and preventive health care fund account.

The initiative would be effective July 1, 1991.

Analysis of Initiative Provisions

Revenue Effects

The fiscal note for the initiative estimates the measure will increase cigarette tax revenue by $32 million and tobacco tax revenue by $1.6 million during the 1993 biennium. These revenue estimates assume no response in cigarette or tobacco consumption in response to the tax. Some consumption decreases may occur. National studies indicate that for every 10 percent increase in cigarette prices, consumption will fall by 3 percent. Table 5 shows revenue estimates for the 1993 biennium under both assumptions: no decreased consumption and a 5 percent decrease in consumption.

TABLE 4
Estimated Revenue from an Increase in Cigarette Tax from 18 Cents to 43 Cents and in Tobacco Tax to 25 Percent

Fiscal Year	No Decrease in Consumption (Millions) Cigarette Tax	No Decrease in Consumption (Millions) Tobacco Tax	5 Percent Decrease in Consumption (Millions) Cigarette Tax	5 Percent Decrease in Consumption (Millions) Tobacco Tax
1992	$16.13	$0.82	$15.37	$0.76
1993	15.60	0.83	14.87	0.77

Since the collection and enforcement structure is already in place, increased administrative costs for cigarette retailers and tobacco wholesalers, as well as the state, should be small.

If Montana's cigarette tax were increased to 43 cents per pack, the new tax rate would be higher than neighboring states but near the tax rate in some other states.

TABLE 5
Tax Rate in Selected States as of 7/1/90

State	Tax Rate
Wyoming	$.12
North Dakota	.30
Idaho	.18
Texas	.41
New Jersey	.40
Connecticut	.40
Hawaii	40% of wholesale price

As of July 1, 1990, 20 states (including Montana) imposed cigarette tax rates of $.19 or less per pack, 12 states imposed cigarette taxes between $.20 and $.29 per pack, 12 states imposed cigarette taxes between $.30 and

$.39 per pack, and 4 states imposed cigarette taxes of $.40 or more per pack.

Revenue Distribution

Under I-115, revenue from the cigarette tax will be distributed:

1) 29.67 percent to the long range building program fund in the debt service fund type;

2) 12.19 percent to the long range building program fund in the capital projects fund type; and

3) 58.14 percent to the tobacco education and preventive health care fund account in the state special revenue fund.

Under the initiative, the distribution percentages for the tobacco tax are:

1) 50 percent to the long range building program debt service fund; and

2) 50 percent to the tobacco education and preventive health care fund.

As Table 6 shows, based on current revenue estimates, the distribution proposed in the initiative would keep the amount of revenue deposited in the long-range building debt service and capital project funds at current levels. The increased revenue generated by the tax hike would be deposited in the tobacco education and preventative health care fund.

TABLE 6 Distribution of Tobacco Tax Revenue Fiscal 1992				
	Current Law		Initiative	
	%	Millions	%	Millions
Cigarette Tax				
Revenue		$11.61		$27.74
Debt Service	70.89	8.23	29.67	8.23
Capital Projects	29.11	3.38	12.19	3.38
Tobacco Education/ Health Care	0	0	58.14	16.13
Other Tobacco Products				
Revenue		$ 0.82		$1.64
Debt Service	100	0.82	50	0.82
Tobacco Education/ Health Care	0	0	50	0.82

The director of the Department of Health and Environmental Sciences would be responsible for administering the tobacco education and preventive health care fund in consultation with an advisory committee appointed by the Governor. The initiative requires the legislature to create and fund this advisory council to review applications for grants, make recommendations for awarding grants, and review grant reports.

Under the initiative, the approximately $16.9 million deposited in the tobacco education and preventive health care fund each year must be allocated:

1) at least 50 percent to school districts, community clinics, community-based organizations, colleges and universities, volunteer health agencies, local health departments, hospitals, and similar organizations for the purpose of establishing

community-based health education programs focusing on youth under age 21;

2) at least 6 percent to grants to public or private organizations for research on tobacco-related health consequences;

3) at least 30 percent to grants to public and private programs providing prenatal and perinatal care and education or treatment of tobacco-related illnesses; and

4) the remainder to administrative costs, additional funding for grants described in subsections (1) through (3), or for grants to public or private programs concerned with fire prevention, environmental conservation, or damage restoration.

APPENDIX A

CI-55 would <u>repeal</u> the following sections of the Montana Constitution.

ARTICLE VIII

REVENUE and FINANCE

Section 3. Property tax administration. The state shall appraise, assess and equalize the valuation of all property which is to be taxed in the manner provided by law.

Section 4. Equal Valuation. All taxing jurisdictions shall use the assessed valuation of property established by the state.

Section 5. Property tax exemptions.

(1) The legislature may exempt from taxation:

(a) Property of the United States, the state, counties, cities, towns, school districts, municipal corporations, and public libraries, but any private interest in such property may be taxed separately.

(b) Institutions of purely public charity, hospitals and places of burial not used or held for private or corporate profit, places for actual religious worship, and property used exclusively for educational purposes.

(c) Any other classes of property.

(2) The legislature may authorize creation of special improvement districts for capital improvements and the maintenance thereof. It may authorize the assessment of charges for such improvements and maintenance against tax exempt property directly benefitted thereby.

Section 6. Highway revenue non-diversion.

(1) Revenue from gross vehicle weight fees and excise and license taxes (except general sales and use taxes) on gasoline, fuel, and other

energy sources used to propel vehicles on public highways shall be used as authorized by the legislature, after deduction of statutory refunds and adjustments, solely for:

(a) Payment of obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges.

(b) Payment of county, city, and town obligations on streets, roads, and bridges.

(c) Enforcement of highway safety, driver education, tourist promotion, and administrative collection costs.

(2) Such revenue may be appropriated for other purposes by a three-fifths vote of the members of each house of the legislature.

Section 7. Tax appeals. The legislature shall provide independent appeal procedures for taxpayer grievances about appraisals, assessments, equalization, and taxes. The legislature shall include a review procedure at the local government unit level.

CI-55 would amend the following sections of the Montana Constitution:

ARTICLE XII

DEPARTMENTS AND INSTITUTIONS

Article XII, Section 1. Agriculture.

(1) The legislature shall provide for a Department of Agriculture and enact laws and provide appropriations to protect, enhance, and develop all agriculture.

~~(2) Special levies may be made on livestock and on agricultural commodities for disease control and indemnification, predator control, and livestock and commodity inspection, protection, research, and~~

~~promotion.~~ ~~Revenue derived~~ ~~shall be used~~ ~~solely~~ ~~for~~ ~~the~~ ~~purposes~~ ~~of~~ ~~the levies~~.

Article XIII, Section 2. <u>Consumer Counsel.</u> The legislature shall provide for <u>and fund</u> an office of consumer counsel which shall have the duty of representing consumer interests in hearings before the public service commission or any other successor agency. ~~The legislature shall provide for the funding of the office of consumer counsel by a special tax on the net income or gross revenues of regulated companies~~.

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